

CITY OF FAIRFAX

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

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CITY OF FAIRFAX

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
William Voss	Mayor	2008
Marianne Wainwright	Mayor Pro tem	2010
Marc Magers	Council Member	2008
Cheryl Scott	Council Member	2008
Jo Ann Beer	Council Member	2010
Bernie Frieden	Council Member	2010
Nancy Flickinger	Finance Administrator	2008
Vickie Kindl	City Clerk	2008
Randy Scholer	Attorney	2008

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fairfax's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly,

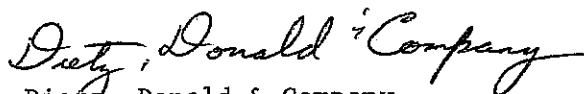
in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregated remaining fund information of the City of Fairfax as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2007 on our consideration of the City of Fairfax's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2006, as it related to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole

December 5, 2007
Elkader, Iowa


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

City of Fairfax
Office of the Clerk

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Fairfax, IA 52228-0337

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. Please keep in mind, however, that information presented for the fiscal year ended June 30, 2006 has not been subjected to audit.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 84.2%, or approximately \$ 827,000 from fiscal 2006 to fiscal 2007. Property tax increased approximately \$ 35,000 and note proceeds increased \$ 898,000. Local option sales tax, however, decreased \$ 119,000.

Disbursements of the City's governmental activities increased 91.4%, or approximately \$ 865,000 in fiscal 2007 from fiscal 2006. Public safety, culture and recreation, and debt service disbursements increased approximately \$ 82,000, \$ 787,000 and \$ 33,000 respectively.

The City's total cash basis net assets decreased 41%, or approximately \$ 835,000 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$ 6,000 and the assets of the business type activities decreased approximately \$ 829,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and solid waste disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities remained nearly constant as compared to 2006, decreasing \$ 6,000 from \$ 803,000 to \$ 797,000. The analysis that follows focuses on the changes in cash basis net assets from government activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts:		
Program receipts:		
Charges for service	\$ 154	142
Operating grants, contributions and restricted interest	183	123
General receipts:		
Property tax	639	567
Local option sales tax	10	129
Unrestricted interest on investments	13	14
Note proceeds	798	0
Other general receipts	13	7
Total receipts	<u>1,810</u>	<u>982</u>
Disbursements:		
Public safety	138	107
Public works	189	183
Culture and recreation	977	190
Community and economic development	21	9
General government	165	169
Debt service	322	289
Total disbursements	<u>1,812</u>	<u>947</u>
Change in cash basis net assets before transfers	(2)	35
Transfers, net	<u>(4)</u>	<u>(84)</u>
Change in cash basis net assets	(6)	(49)
Cash basis net assets beginning of year	<u>803</u>	<u>852</u>
Cash basis net assets end of year	<u>\$ 797</u>	<u>803</u>

The City's total receipts for governmental activities increased 84.2%, or approximately \$ 827,000. The total cost of all programs increased approximately \$ 865,000, or 91.4%. The purchase of 52 acres of farmland for use as a future park at a cost of over \$ 778,000 accounted for nearly all of the increase. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation notes to purchase the farmland.

The City property tax rates remained unchanged in 2007. However, increased valuations raised the City's property tax receipts \$ 72,000

in 2007. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$ 203,000 next year.

The cost of all governmental activities was \$ 1.812 million compared to \$ 947,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 1.475 million because some of the cost was paid by those directly benefited from the programs (\$ 154,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 183,000). Overall, the City's governmental activities receipts, including governmental aid and fees for service increased in 2007 from approximately \$ 265,000 to approximately \$ 337,000, principally due to an increase in road use tax receipts. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 649,000 in tax (some of which could only be used for certain programs), \$ 798,000 in note proceeds and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 140	141
Sewer	172	130
Garbage	75	69
General receipts:		
Unrestricted interest on investments	7	8
Bond and note proceeds	1,954	647
Other general receipts	9	9
Total receipts	<u>2,357</u>	<u>1,004</u>
Disbursements:		
Water	190	138
Sewer	2,932	543
Garbage	67	58
Total disbursements	<u>3,189</u>	<u>739</u>
Change in cash basis net assets before transfers	(832)	265
Transfers, net	<u>4</u>	<u>84</u>
Change in cash basis net assets	(828)	349
Cash basis net assets beginning of year	<u>1,234</u>	<u>885</u>
Cash basis net assets end of year	<u>\$ 406</u>	<u>1,234</u>

Total business type receipts for the fiscal year were \$ 2.357 million compared to \$ 1.004 million last year. This significant increase was due primarily to the receipt of \$ 1.954 million in sewer revenue bond proceeds in 2007 as compared to the receipt of \$ 647,000 in sewer general obligation bond proceeds in 2006. The cash balance decreased by \$ 828,000 from the prior year because most of the 2006 bond proceeds were not spent until 2007. Total disbursements for the fiscal year increased 332% to a total of \$ 3.189 million due to the construction of the new wastewater treatment facility.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfax completed the year, its governmental funds reported a combined fund balance of \$ 796,892, a decrease of approximately \$ 6,000 below last year's total of \$ 803,375. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$ 36,950 from the prior year to \$ 616,582. The City purchase of a used rescue vehicle for \$ 40,000 accounts for the decrease in cash balance.

The Special Revenue, Urban Renewal Tax Increment Fund was established previously to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$ 92,824 roughly the same as the previous years balance of \$ 93,619. Revenues in the fund are being used to retire debt acquired from extending infrastructure and purchasing land in the urban renewal district. Tax increment financing receipts increased \$ 37,781 to \$ 277,827 in 2007.

The Debt Service Fund retired \$ 185,000 of outstanding debt and paid \$ 136,970 of interest on the outstanding general obligation debt. The Debt Service Fund received \$ 43,348 from the General Fund and \$ 278,622 from the Special Revenue, Urban Renewal Tax Increment Fund in transfers to cover debt service payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased \$ 49,069 due primarily to water main extension work in the East Cemetery Road area.

The Sewer Fund cash balance decreased \$ 795,101 to \$ 266,263, due primarily to construction work on the new wastewater treatment facility.

The Garbage Fund cash balance increased \$ 8,113 to \$ 74,347.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget two times. The

first amendment was approved on December 12, 2006 and resulted in an increase in operating disbursements related to the unbudgeted purchase of 52 acres of farmland at an approximate cost of \$ 841,000. The second amendment was approved on May 8, 2007 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$ 45,604 more than budgeted. This was primarily due to the City receiving more in sewer and water charges for service than anticipated, even after the amendments.

Total disbursements were \$ 1,081,776 less than the amended budget. Actual disbursements for the public works, culture and recreation and business type activities functions were \$ 207,290, \$ 149,728 and \$ 611,553, respectively, less than the amended budget. This was primarily due to the City delaying projects in the street and parks departments and delays in the completion of the new wastewater treatment facility.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$ 5,517,560 in bonds and notes outstanding, compared to \$ 2,925,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2007	2006
General obligation notes	\$ 3,540	2,925
Revenue Bonds	1,978	0
Total	\$ 5,518	2,925

Debt increased as a result of issuing revenue bonds for construction of a new wastewater treatment facility. In addition the City issued \$ 800,000 of urban renewal land acquisition general obligation notes to purchase 52 acres of farmland.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 3,540,000 is significantly below its constitutional debt limit of \$ 5,200,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfax's elected and appointed officials and citizen's

considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. One of these factors is the economy. The City has experienced nearly an 84% increase in population from 2000 to 2005. Unemployment in Linn County stands at 2.1% significantly less than the State's unemployment rate of 3.4% and the national rate of 3.9%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2% for fiscal year 2007 compared with the national rate of 3.4%. Inflation has been modest here despite a surge in the residential housing market and increases in energy prices in 2007.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$ 1.6 million, a decrease of 65% from the final 2007 budget. Although property taxes are budgeted to increase \$ 232,000 (all due to an increase in assessed valuations), bond and note proceeds are expected to decrease by over \$ 2.5 million. Budgeted disbursements are expected to decrease by approximately \$ 3.9 million. There is no land acquisition or major improvement project like the wastewater treatment facility anticipated to occur in fiscal year 2008. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 600,000 by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Nancy Flickinger, Finance Administrator, 525 Vandebilt Street, Fairfax, Iowa 52228-0337.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF FAIRFAX
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2007

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Public safety	\$ 138,184	66,427	20,923	(50,834)	0	(50,834)
Public works	188,875	190	138,519	(50,166)	0	(50,166)
Culture and recreation	976,642	26,556	6,660	(943,426)	0	(943,426)
Community and economic development	20,739	0	16,565	(4,174)	0	(4,174)
General government	165,366	60,538	0	(104,828)	0	(104,828)
Debt service	321,970	0	0	(321,970)	0	(321,970)
Total governmental activities	1,811,776	153,711	182,667	(1,475,398)	0	(1,475,398)
Business type activities:						
Water	189,526	139,609	0	0	(49,917)	(49,917)
Sewer	2,931,700	171,629	0	0	(2,760,071)	(2,760,071)
Garbage	66,852	74,887	0	0	8,035	8,035
Total business type activities	3,188,078	386,125	0	0	(2,801,953)	(2,801,953)
Total	\$ 4,999,854	539,836	182,667	(1,475,398)	(2,801,953)	(4,277,351)
General Receipts:						
Property and other city tax levied for:				361,391	0	361,391
General purposes				277,827	0	277,827
Tax increment financing				9,413	0	9,413
Local option sales tax				12,567	7,515	20,082
Unrestricted interest on investments				0	1,953,560	1,953,560
State revolving fund loan proceeds (net of \$ 24,000 discount)				798,355	0	798,355
Note proceeds (net of \$ 1,645 discount)				12,973	8,642	21,615
Miscellaneous				(3,611)	3,611	0
Transfers				1,468,915	1,973,328	3,442,243
Total general receipts and transfers				(6,483)	(828,625)	(835,108)
Change in cash basis net assets				803,375	1,234,304	2,037,679
Cash basis net assets beginning of year				\$ 796,892	405,679	1,202,571
Cash basis net assets end of year						
Cash Basis Net Assets						
Restricted:				\$ 190,006	0	190,006
Streets				92,824	0	92,824
Urban renewal purposes				17,060	0	17,060
Library				14,545	0	14,545
Fire department				0	28,476	28,476
Debt service				16,306	0	16,306
Other purposes				466,151	377,203	843,354
Unrestricted				\$ 796,892	405,679	1,202,571
Total cash basis net assets						

See notes to financial statements.

Exhibit B

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2007

	Special Revenue				
	Urban Renewal		Debt Service	Nonmajor	Total
	General	Tax Increment			
Receipts:					
Property tax	\$ 316,348	0	0	0	316,348
Tax increment financing	0	277,827	0	0	277,827
Other city tax	45,043	0	0	9,031	54,074
Licenses and permits	57,387	0	0	0	57,387
Use of money and property	14,044	0	0	0	14,044
Intergovernmental	97,724	0	0	138,519	236,243
Charges for service	4,215	0	0	0	4,215
Miscellaneous	33,846	0	0	16,565	50,411
Total receipts	568,607	277,827	0	164,115	1,010,549
Disbursements:					
Operating:					
Public safety	138,184	0	0	0	138,184
Public works	83,292	0	0	105,583	188,875
Culture and recreation	976,642	0	0	0	976,642
Community and economic development	0	0	0	20,739	20,739
General government	165,366	0	0	0	165,366
Debt service	0	0	321,970	0	321,970
Total disbursements	1,363,484	0	321,970	126,322	1,811,776
Excess (deficiency) of receipts over (under) disbursements	(794,877)	277,827	(321,970)	37,793	(801,227)
Other financing sources (uses):					
Note proceeds	798,355	0	0	0	798,355
Operating transfers in	5,420	0	321,970	2,500	329,890
Operating transfers out	(45,848)	(278,622)	0	(9,031)	(333,501)
Total other financing sources (uses)	757,927	(278,622)	321,970	(6,531)	794,744
Net change in cash balances	(36,950)	(795)	0	31,262	(6,483)
Cash balances beginning of year	653,532	93,619	0	56,224	803,375
Cash balances end of year	\$ 616,582	92,824	0	87,486	796,892
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ 616,582	0	0	0	616,582
Special revenue funds	0	92,824	0	87,486	180,310
Total cash basis fund balances	\$ 616,582	92,824	0	87,486	796,892

See notes to financial statements.

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2007

	Enterprise			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 139,609	171,629	74,887	386,125
Operating disbursements:				
Business type activities	189,526	2,912,626	66,852	3,169,004
Excess (deficiency) of receipts over (under) disbursements	(49,917)	(2,740,997)	8,035	(2,782,879)
Non-operating receipts (disbursements):				
Interest on investments	0	7,515	0	7,515
Miscellaneous	8,280	284	78	8,642
State revolving fund bond proceeds	0	1,953,560	0	1,953,560
Debt service	0	(19,074)	0	(19,074)
Net non-operating receipts	8,280	1,942,285	78	1,950,643
Excess (deficiency) of receipts over (under) disbursements	(41,637)	(798,712)	8,113	(832,236)
Operating transfers in	0	3,611	0	3,611
Net change in cash balances	(41,637)	(795,101)	8,113	(828,625)
Cash balances beginning of year	106,706	1,061,364	66,234	1,234,304
Cash balances end of year	\$ 65,069	266,263	74,347	405,679
Cash Basis Fund Balances				
Reserved for debt service	\$ 0	28,476	0	28,476
Unreserved	65,069	237,787	74,347	377,203
Total cash basis fund balances	\$ 65,069	266,263	74,347	405,679

See notes to financial statements.

CITY OF FAIRFAX

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1936 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfax has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units in which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, City Assessor's Conference Board, Linn County Emergency Management Commission, and Linn County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Garbage Fund accounts for the operation of the City's solid waste collection program.

C. Measurement Focus and Basis of Accounting

The City of Fairfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and

instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 455,000	141,738	5,000	58,607	460,000	200,345
2009	465,000	125,427	5,000	58,457	470,000	183,884
2010	485,000	108,324	5,000	58,307	490,000	166,631
2011	510,000	90,026	5,000	58,157	515,000	148,183
2012	310,000	70,280	118,000	58,007	428,000	128,287
2013-2017	1,140,000	165,792	646,000	234,714	1,786,000	400,506
2018-2022	175,000	15,745	749,000	131,844	924,000	147,589
2023-2025	-	-	420,560	23,030	420,560	23,030
Total	\$ 3,540,000	717,332	1,953,560	681,123	5,493,560	1,398,455

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. The City's contribution to IPERS for the year ended June 30, 2007 was \$ 12,268 equal to the required contribution for the year.

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 5,420
Special Revenue: Visioning	General	<u>2,500</u>
Debt Service	General	43,348
	Special Revenue: Urban Renewal Tax Increment	<u>278,622</u>
		<u>321,970</u>
Enterprise: Sewer	Special Revenue: Local Option Sales Tax	<u>3,611</u>
Total		<u>\$ 333,501</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 26,708.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries

to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2007.

(8) Commitments

During the fiscal year ended June 30, 2007, the City entered into construction contracts totaling \$ 2,800,327 for the new wastewater treatment plant. The City paid \$ 2,193,445 on these contracts during the year. At June 30, 2007, \$ 606,882 remained unpaid and will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 316,348	0	316,348	321,426	321,426	(5,078)
Tax increment financing collections	277,827	0	277,827	259,653	259,653	18,174
Other city tax	54,074	0	54,074	29,591	39,591	14,483
Licenses and permits	57,387	0	57,387	11,000	40,000	17,387
Use of money and property	14,044	7,515	21,559	14,650	14,650	6,909
Intergovernmental	236,243	0	236,243	232,346	294,846	(58,603)
Charges for service	4,215	386,125	390,340	366,871	367,061	23,279
Miscellaneous	50,411	8,642	59,053	10,000	30,000	29,053
Total receipts	1,010,549	402,282	1,412,831	1,245,537	1,367,227	45,604
Disbursements:						
Public safety	138,184	0	138,184	157,684	187,367	49,183
Public works	188,875	0	188,875	396,165	396,165	207,290
Culture and recreation	976,642	0	976,642	255,430	1,126,370	149,728
Community and Economic Development	20,739	0	20,739	16,051	46,051	25,312
General government	165,366	0	165,366	204,076	204,076	38,710
Debt service	321,970	0	321,970	303,000	321,970	0
Capital projects	0	0	0	25,000	0	0
Business type activities	0	3,188,078	3,188,078	3,064,631	3,799,631	611,553
Total disbursements	1,811,776	3,188,078	4,999,854	4,422,037	6,081,630	1,081,776
Deficiency of receipts under disbursements	(801,227)	(2,785,796)	(3,587,023)	(3,176,500)	(4,714,403)	1,127,380
Other financing sources, net	794,744	1,957,171	2,751,915	2,400,000	3,200,000	(448,085)
Deficiency of receipts and other financing sources under disbursements and other financing uses	(6,483)	(828,625)	(835,108)	(776,500)	(1,514,403)	679,295
Balances beginning of year	803,375	1,234,304	2,037,679	1,524,417	1,524,417	513,262
Balances end of year	\$ 796,892	405,679	1,202,571	747,917	10,014	1,192,557

See accompanying independent auditor's report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon eight major classes of disbursements known as functions, not by fund. These eight functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 62,799. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2007

	Special Revenue			
	Road	Local		
	Use	Option		
	Tax	Sales	Visioning	Total
	Tax	Tax		
Receipts:				
Other city tax	\$ 0	9,031	0	9,031
Intergovernmental	138,519	0	0	138,519
Miscellaneous	0	0	16,565	16,565
Total receipts	138,519	9,031	16,565	164,115
Disbursements:				
Operating				
Public works	105,583	0	0	105,583
Community and economic development	0	0	20,739	20,739
Total disbursements	105,583	0	20,739	126,322
Excess (deficiency) of receipts over (under) disbursements	32,936	9,031	(4,174)	37,793
Other financing sources (uses):				
Operating transfers in	0	0	2,500	2,500
Operating transfers out	0	(9,031)	0	(9,031)
Total other financing sources (uses)	0	(9,031)	2,500	(6,531)
Net change in cash balances	32,936	0	(1,674)	31,262
Cash balances beginning of year	39,328	0	16,896	56,224
Cash balances end of year	\$ 72,264	0	15,222	87,486
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 72,264	0	15,222	87,486

See accompanying independent auditor's report.

Schedule 2

CITY OF FAIRFAX
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Corporate purpose	Jun 1, 2001	4.60-5.25%	\$ 1,185,000	915,000	0	75,000	840,000	44,812
Water	Oct 1, 2001	3.90-5.00%	450,000	350,000	0	30,000	320,000	15,828
Corporate purpose	Mar 1, 2003	2.25-3.80%	465,000	330,000	0	40,000	290,000	10,420
Wastewater improvement	Dec 1, 2004	2.40-4.50%	700,000	680,000	0	40,000	640,000	24,932
Sanitary water improvement	Oct 1, 2005	3.10-3.70%	650,000	650,000	0	0	650,000	22,008
Urban renewal land acquisition	Oct 15, 2006	3.70-3.85%	800,000	0	800,000	0	800,000	18,970
				<u>\$ 2,925,000</u>	<u>800,000</u>	<u>185,000</u>	<u>3,540,000</u>	<u>136,970</u>
Revenue bonds								
Sewer	Dec 1, 2006	3.00%	\$ 2,400,000	0	1,977,560	0	1,977,560	15,590

See accompanying notes to financial statements.

Schedule 3

CITY OF FAIRFAX
BOND AND NOTE MATURITIES
June 30, 2007

General Obligation Notes

Year Ending June 30,	Corporate Purpose		Water		Corporate Purpose		Wastewater Improvement		Sanitary Sewer Improvement		Urban Renewal Land Acquisition		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
			Issued Oct 1, 2001		Issued Mar 1, 2003		Issued Dec 1, 2004		Issued Oct 1, 2005		Issued Oct 15, 2006		
2008	4.60%	\$ 80,000	4.00%	\$ 30,000	2.60%	\$ 45,000	2.65%	\$ 40,000	3.10%	\$ 70,000	3.70%	\$ 190,000	455,000
2009	4.60	80,000	4.20	30,000	3.00	45,000	2.85	40,000	3.15	75,000	3.75	195,000	465,000
2010	4.70	85,000	4.30	30,000	3.20	50,000	3.05	40,000	3.20	75,000	3.80	205,000	485,000
2011	4.80	90,000	4.40	35,000	3.40	50,000	3.25	45,000	3.30	80,000	3.85	210,000	510,000
2012	4.90	95,000	4.55	35,000	3.60	50,000	3.40	45,000	3.40	85,000	-	-	310,000
2013	5.00	95,000	4.70	35,000	3.80	50,000	3.65	45,000	3.50	85,000	-	-	310,000
2014	5.10	100,000	4.80	40,000	-	-	3.70	50,000	3.50	90,000	-	-	280,000
2015	5.15	105,000	4.90	40,000	-	-	3.85	50,000	3.70	90,000	-	-	285,000
2016	5.25	110,000	5.00	45,000	-	-	4.00	55,000	-	-	-	-	210,000
2017	-	-	-	-	-	-	4.15	55,000	-	-	-	-	55,000
2018	-	-	-	-	-	-	4.30	55,000	-	-	-	-	55,000
2019	-	-	-	-	-	-	4.40	60,000	-	-	-	-	60,000
2020	-	-	-	-	-	-	4.50	60,000	-	-	-	-	60,000
Total		<u>\$ 840,000</u>		<u>\$ 320,000</u>		<u>\$ 290,000</u>		<u>\$ 640,000</u>		<u>\$ 650,000</u>		<u>\$ 800,000</u>	<u>\$ 3,540,000</u>

Year Ending June 30,	Revenue Bonds	
	Interest Rates	Amount
		Issued Dec 1, 2006
2008	3.00%	\$ 5,000
2009	3.00	5,000
2010	3.00	5,000
2011	3.00	5,000
2012	3.00	118,000
2013	3.00	122,000
2014	3.00	125,000
2015	3.00	129,000
2016	3.00	133,000
2017	3.00	137,000
2018	3.00	141,000
2019	3.00	145,000
2020	3.00	150,000
2021	3.00	154,000
2022	3.00	159,000
2023	3.00	163,000
2024	3.00	168,000
2025	3.00	<u>\$ 89,560</u>
Total		<u>\$ 1,953,560</u>

See accompanying independent auditor's report.

CITY OF FAIRFAX
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
Environmental Protection			
Agency:			
Iowa Department of			
Natural Resources:			
Iowa Finance Authority:			
Capitalization Grants			
for Clean Water State			
Revolving Funds			
	66.458	CS 192315-01	<u>\$ 1,977,560</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Fairfax and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 5, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Fairfax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Fairfax's ability to initiate, authorize, record, process, or report financial

data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Fairfax's financial statements that is more than inconsequential will not be prevented or detected by the City of Fairfax's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Fairfax's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairfax's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfax's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfax and other parties to whom the City of Fairfax may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfax during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 5, 2007

Dietz, Donald & Company
Dietz, Donald & Company, CPAs
FEIN 42-1172392

Dietz, Donald & Company

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Fairfax, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The City of Fairfax's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Fairfax's management. Our responsibility is to express an opinion on the City of Fairfax's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fairfax's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fairfax's compliance with those requirements.

In our opinion, the City of Fairfax complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Fairfax is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Fairfax's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fairfax and other parties to whom the City of Fairfax may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

December 5, 2007

Dietz, Donald & Company
Dietz, Donald and Company, CPAs
FEIN 42-1172392

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles; because we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2006.
- (b) No significant deficiencies in internal control were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 - Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- (i) The City of Fairfax did not qualify as a low-risk auditee.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 **Certified Budget** - Disbursements for the year ended June 30, 2007 did not exceed the amounts budgeted.

IV-B-07 **Questionable Disbursements** - Certain disbursements, which we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented, were noted.

Paid to	Purpose	Amount
Fareway Stores	Pop, water, groceries	\$ 967
Jeff Pottebaum	Grocery reimbursement	83
Menard's	Grocery items	20
Michael Kankot	Grocery reimbursement	731
Dave Kosmoch	Food reimbursement	21
Hungry Hubo	Food items	68
Dairy Queen	Bars	36
Fairfax Senior Citizens	Senior Christmas dinner	500

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should evaluate and document the public purpose served by the expenditure before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation surrounding each individual transaction.

Response - The Council will discuss this.

Conclusion - Response accepted.

IV-C-07 **Travel Expense** - No disbursements of City money for travel expenses of City officials or employees were noted.

IV-D-07 **Business Transactions** - Business Transactions between City and City officials or employees are detailed as follows:

Name, Title and Business Connction	Transaction Description	Amount
Jim Bayne, Library Board Member, owner of Bayne School and Equipment	Shelving	\$ 2,640
Marianne Wainwright, Mayor pro tem, employee LL Pelling Co.	Tennis court resurfacing, pre-mix	20,619
William Voss, mayor, owner of Voss Welding	Repair labor, parts	3,414
Aaron Voss, son of mayor, owner of Aaron Voss Co.	Computer services	35

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Mayor's son does not appear to represent a conflict of interest since total transactions with the individual were less than \$ 2,500. The transactions with the Mayor pro tem do not appear to represent a conflict of interest, since the \$ 20,039 tennis court resurfacing project was entered into through competitive bidding. The transactions with Bayne School and Equipment and Voss Welding may represent a conflict of interest since the total cumulative transactions with each entity were greater than \$ 2,500.

Recommendation - The City should consult legal counsel to determine the disposition of payments made to Bayne School and Office Equipment and Voss Welding.

Response - We will do this.

Conclusion - Response accepted.

IV-E-07 **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-07 **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-07 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-07 **Revenue Bonds** - The City has complied with the provisions of the revenue bond resolutions.

IV-I-07 **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We will discuss this with the bank to see if this is possible.

Conclusion - Response accepted.